

INFORMED BUDGETEER

THE BITE IN THE 1998 STATUTORY CAPS

- The 1990 Budget Enforcement Act (BEA) set caps on total discretionary spending through FY 1995. President Clinton’s Omnibus Budget Reconciliation Act of 1993 amended the BEA to extend these caps through FY 1998.
- The BEA provides a 60 vote point of order in the Senate against a budget resolution that sets discretionary funding levels in excess of the discretionary caps. If appropriations legislation causes the caps to be exceeded the BEA also requires OMB to issue a sequester order to reduce all discretionary accounts by a uniform percentage to bring spending within the caps.
- In 1994 Senators Exon and Grassley included a provision in the FY 1995 budget resolution that had the effect of lowering the statutory caps by \$4.1 billion in BA and \$500 million in outlays for the purposes of consideration of budget resolutions. As a result, this year’s budget resolution must reduce discretionary spending by \$4.1 billion in BA and \$500 million in outlays below the FY 1998 statutory cap.
- For the past couple of years, the statutory caps have not presented a problem because Congress has appropriated much less than the limits. However, the FY 1998 cap is going to be tough to meet as the table below illustrates.

FY 1998 DISCRETIONARY SPENDING & THE CAPS (\$ in Billions)		
	BA	OT
General Purpose Spending:		
Statutory general Purpose Limits	528.3	541.5
<u>Exon-Grassley Reductions</u>	<u>-4.1</u>	<u>-0.5</u>
General Purpose Limits	524.2	541.0
CBO uncapped baseline	528.1	554.6
President’s budget (CBO estimate)*	525.2	549.1
CBO freeze baseline	507.1	543.4
Crime Fund Spending:		
VCRTF Limits	5.5	4.9
CBO uncapped baseline	4.8	3.2
President’s budget (CBO estimate)	5.5	3.6
CBO freeze baseline	4.7	3.2
Total Discretionary Spending:		
General purpose & VCRTF adjusted limits	529.7	545.9
CBO uncapped baseline	532.9	557.9
President’s Budget	530.7	552.7
CBO freeze baseline	511.8	546.7

*President’s budget has been adjusted to remove BA and outlays resulting from emergencies and CDRs.

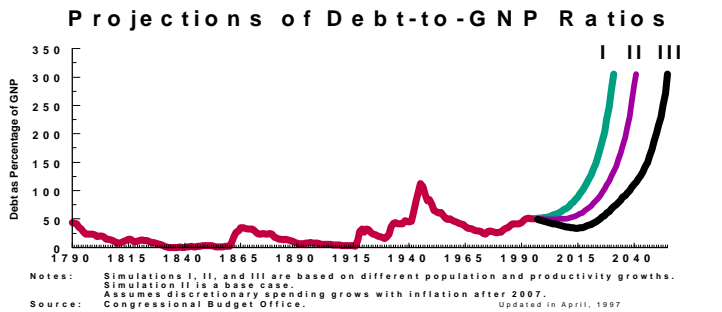
- Even if the Congress were to freeze 1998 appropriations at their 1997 level, general purpose outlays in 1998 would exceed the statutory adjusted cap by \$2.4 billion (\$543.4 minus \$541.0). The President’s own budget as estimated by CBO would exceed the statutory cap by \$8.1 billion.

BLEAK LONG-TERM FISCAL OUTLOOK

- CBO released an update of its long-term fiscal outlook last month. Their conclusion is the same as last year: “current budget policy is unsustainable, and attempting to preserve it would severely damage the economy”. (*Long-Term Budgetary Pressures and Policy Options*, page xi, 1997).
- The agency finds that if current policy is left unchanged, there is a 94% chance that the federal debt to GNP ratio will exceed 200% by 2050. Once debt levels approach this level, increasing debt service quickly sends the outstanding debt to GNP ratio shooting toward infinity.
- Since higher debt levels imply higher interest rates, investment and economic growth suffer notably as debt levels climb. In fact, per capita GNP actually begins to fall shortly after 2030 if current policy is maintained.
- CBO measures the long-term fiscal imbalance by calculating the

amount by which taxes would have to be raised permanently to ensure steady debt to GNP levels going forward.

- They estimate that a permanent tax hike of 4.1% of GDP (or a 20% increase in current revenues) would be required to fix the long-term situation at present. This is slightly lower than CBO’s 5.4% estimate last year. This reduction is due to the recent improved deficit outlook and changes in CBO’s productivity assumptions.
- Further they note that the cost of delaying remedial fiscal action are high. If we wait 5 years instead of addressing the problem now, the cost of resolving the long-term fiscal problem (expressed as a permanent tax increase as a percentage of GDP) would rise by 15% -- to 4.7% of GDP. If action is delayed for 20 years, the cost would rise by 60%.
- CBO has examined the potential impact of a budget plan which achieves budget balance from 2002-2007 through a combination of cuts in levels for discretionary programs, Medicare and Medicaid. They found that such action would resolve 45 % of the long-term fiscal problem. While significant long-term imbalances would still remain and would need to be addressed, such results should encourage those who are pushing for a credible, multi-year, balanced budget plan.
- The non-partisan agency also expressed doubt over the Administration’s long-range budget estimates. They do not believe that the President’s budget would achieve balance through 2020 as claimed, given overly optimistic assumptions on discretionary spending and a failure to consider the feedback effect of higher interest rates on the economy. Nonetheless, they said that the President’s budget would still help the long-term outlook slightly, even if it does not achieve balance.



SPRING BRINGS DISASTER SUPPLEMENTAL

- If it’s spring, it is supplemental season, and unfortunately, disaster supplemental season. Congressional action on the President’s proposed FY 1997 supplemental appropriations requests for peacekeeping operations in Bosnia, disaster relief, and WIC is expected in the next few weeks.
- The Administration requests \$2 billion in “emergency” and “contingent emergency” funding to respond to winter and spring flooding, tornadoes, and other natural disasters.
- While the rescission (cancellation) of existing spending authority has been proposed to offset the costs of the \$100 million program supplemental proposed for the Women’s, Infants, and Children (WIC) program, the disaster aid request contains no offset. The Appropriations Committees are seeking offsetting savings to pay for the disaster aid request. Which amounts to a net of \$1.7 billion in BA and \$0.2 billion in outlays.
- The Administration has proposed that Congress give the Department of Defense general authority to cancel \$4.8 billion in existing budget authority at its discretion to find a way to pay for ongoing peacekeeping operations and to generate \$800 million in outlay savings in FY 1998 to address a shortage in the President’s 1998 budget request for DoD.
- \$2 billion is requested to replenish Defense Department accounts that

have paid for the peacekeeping operations in Bosnia and Southwest Asia. While the CBO table shows proposed savings (offsets) to pay for Bosnia and to address the \$800 million outlay shortfall in 1998, the Administration has not submitted specific rescission proposals, nor does it intend to.

- Thus, the burden rests with Congress to pay for these supplemental requests, or declare them “emergency” requirements outside the discipline of the discretionary spending caps, and which would add to the deficit.

FY 1997 Emergency Supplemental & Rescissions Requests (In millions of dollars)				
Subcommittee	1997		1998	
	BA	OT	BA	OT
AGRICULTURE				
Non-Emergencies	50	60	-	-8
Emergencies	123	12	-	79
Subtotal, net	173	72	-	71
COMMERCE, JUSTICE, STATE				
Non-Emergencies	-6	-6	-	-
Emergencies	24	-	-	9
Subtotal, net	18	-6	-	9
ENERGY & WATER				
Non-Emergencies	-52	-15	31	-10
Emergencies	296	-	-	161
Subtotal, net	244	-15	31	151
INTERIOR				
Non-Emergencies	-11	1	-	-5
Emergencies	277	43	-	94
Subtotal, net	266	43	-	89
TRANSPORTATION				
Non-Emergencies	[318]	54	-	165
Emergencies	311	67	-	153
Subtotal, net	311	121	-	318
TREASURY				
Non-Emergencies	-1	5	-	-
VETERANS, HUD				
Non-Emergencies	-250	-4	-	-3
Emergencies	979	-	-	-
Subtotal, net	729	-4	-	-3
<u>Total, Non Defense:</u>				
Non-emergencies	-270	95	31	139
Emergencies	2,010	122	-	496
Total, net	1,740	217	31	635
DEFENSE				
Non-Emergencies	-4,852	-687	-	-1442
Emergencies	2,078	867	-	984
Total, Defense, net	-2,774	180	-	-458
Total Request, Non Emergencies	-5,122	-592	31	-1,303
Total Request, Emergencies	4,088	989	-	1,480
TOTAL, net	-1,034	397	31	177

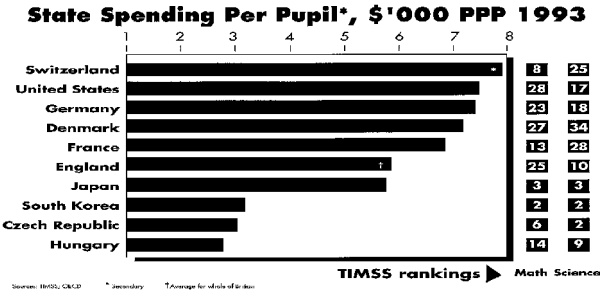
SOURCE: Congressional Budget Office; Includes “contingent emergency appropriations in request and discretionary and mandatory items. [Non-add]

TALKING TIMMS

- The United States may be a world superpower, but might doesn’t always make bright, as the Third International Math and Science Study (TIMMS) illustrates. Out of 41 countries tested, the United States ranks 28th in math and 17th in science.
- While per-pupil spending is three times higher in the United States than other countries like South Korea -- lower spending Asian countries beat the US hands down on tests. Even Hungary with the lowest level of per pupil expenditure beat the U.S.
- The TIMMS had more countries participating in the tests than ever before. As more and more countries become concerned about the growth in public spending, they are interested in looking at spending resources more efficiently. Economic pressures have forced countries to worry less about the embarrassment of a low ranking and focus more on what they can learn from other countries.
- TIMMS has dispelled certain myths, which national tests have

also disproved, namely, that spending more on schools is necessary for improving performance; that children learn better in smaller classrooms; and that there is a correlation between time spent on subjects and student performance.

- A TIMMS researcher studied countries who have had success in producing educated students and found some common factors:
 - Standardized teaching manuals are tested extensively, and then used widely in schools.
 - Whole class instruction is used -- whereby the teacher works with the class as a unit, as opposed to breaking up the class into small groups.
 - Teachers monitor student progress closely and provide extra help to those students falling behind.
 - For math, students learn better when they calculate problems in their head before putting them on paper. Calculators are rarely allowed.



RAINES RESPONDS TO RESULTS ACT LETTER

- Last month the Republican Leadership and the Chairmen of the Appropriations, Budget, Governmental Affairs, and Governmental Reform and Oversight Committees sent OMB Director Raines a letter urging agencies to promptly begin meeting with the Congress to discuss agency strategic plans, as required by the Government and Performance Results Act. The letter also outlined what the Congress expects to occur during the consultations, such as reaching a reasonable degree of agreement as to what performance measures would be used.
- Director Raines responded in a March 17 letter which agreed that consultations with Congress are an integral part in developing strategic plans and will be relatively unimpeded by OMB. He said he was pleased with the Congress’s interest in the bi-partisan, non-ideological law.
- Director Raines indicated that the completed agency plans would be reflective of Congressional views, but added that “not every proposal made during consultation will be incorporated in a plan, nor every idea accepted.” The letter firmly stated that “the final management choices on the pace, emphasis, and priority of accomplishments are guided by Administration priorities, and are essentially an agency’s to make.”
- Both the House and Senate Leadership staff are currently setting up staff teams from the Appropriations Committees, the Authorizing Committees, and the Budget Committees to meet with agencies on a coordinated basis.

EDITOR’S NOTE: CBO REPORTS AVAILABLE: three new reports were released in March that may be of interest to informed budgeteers: *Long Term Budgetary Pressures & Policy Options*; *Reducing the Deficit: Spending and Revenue Options*; and *Analysis of the President’s Budgetary Proposals for Fiscal Year 1998*. For copies of the reports, please contact CBO’s publications office .

CONGRATULATIONS to Austin, Katie and Shannon Smythe as they welcome their new baby girl. SBC sends it’s best wishes to Hannah Davis Smythe who was born happy & healthy on April 11th!